

Message Text

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PAGE 01 HONG K 10719 250949Z

21/14

ACTION EA-14

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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 8538

INFO USLO PEKING

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E.O. 11652: N/A

TAGS: EIND ETRD CH US

SUBJECT: STEEL SCRAP SALE TO PRC

SUMMARY: STEELMET, INC. HAS REACHED AGREEMENT FOR THE SALE TO CHINA OF A LARGE QUANTITY OF STEEL SCRAP FOR DELIVERY IN 1974. PRICE WILL BE NEGOTIATED IN DECEMBER AND APRIL ACCORDING TO PREVAILING MARKET CONDITIONS. STEELMET FEARS THAT NEAR TERM US RESTRICTIONS ON EXPORTS OF SCRAP, ESPECIALLY IF THE HISTORICAL RECORD IS USED AS THE BASIS FOR ALLOCATIONS, WILL IMPAIR US DEVELOPMENT OF THE CHINA MARKET. END SUMMARY

1. CONGEN HAS RECEIVED FOLLOWING REPORT FROM USLO AND CONGEN OFFICERS HOROWITZ AND STARBIRD AT THE CANTON FAIR.

2. ON OCTOBER 18, ALAN AMPER AND ROBERT WAISFISZ, PRESIDENT AND VICE PRESIDENT RESPECTIVELY OF STEELMET, INC., TOLD USLO AND CONGEN OFFICERS AT THE CANTON FAIR THAT THEY HAD REACHED AGREEMENT WITH THE PRC FOR THE SALE OF A "LARGE" QUANTITY OF STEEL SCRAP TO BE DELIVERED IN 1974 SUBJECT TO US EXPORT CONTROLS. THEY DID NOT SAY WHAT QUANTITY IS INVOLVED BUT SAID THAT STEELMET IS SO CONFIDENT OF THE LONG TERM POTENTIAL OF THE CHINA MARKET FOR SCRAP THAT IT HAS HEAVILY COMMITTED ITSELF ON THIS

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PAGE 02 HONG K 10719 250949Z

SALE (WHICH IS ITS THIRD TO CHINA).

3. THE UNIQUE FEATURE OF THE NEW AGREEMENT IS THAT PRICE IS NOT FIXED BUT INSTEAD WILL BE SEPARATELY NEGOTIATED IN DECEMBER AND AGAIN IN APRIL IN ACCORD WITH PREVAILING MARKET CONDITIONS. THE CHINESE TOLD STEELMET THAT THIS IS THE FIRST OPEN PRICE CONTRACT TO WHICH THEY HAVE AGREED. FORMAL SIGNING HAS NOT YET TAKEN PLACE, BUT STEELMET OFFICIALS ARE CONFIDENT THAT THE AGREEMENT IS FIRM AND BELIEVE THAT GREAT MUTUAL TRUST HAS BEEN ESTABLISHED BETWEEN THEM AND THEIR CHINESE COUNTERPARTS.

4. THE STEELMET OFFICIALS ESTIMATE THAT CONTRACTS WITH ALL US FIRMS FOR EXPORTS OF SCRAP TO THE PRC THIS YEAR ARE ABOUT 800,000 TONS, WORTH ABOUT \$70 MILLION. THEY ESTIMATE THAT PRC TOTAL CONSUMPTION OF SCRAP IS ABOUT 1 TO 1.25 MILLION TONS PER YEAR WITH FUTURE GROWTH AT A RATE COMMENSURATE WITH INCREASES IN PRC STEEL OUTPUT (SEE HK 9728 AND PEKING 1080). WHILE THE LONG TERM POTENTIAL IS GREAT, THEY SAID, THERE IS THE DANGER THAT NEAR TERM US RESTRICTIONS ON SCRAP EXPORTS WILL OPERATE AGAINST US DEVELOPMENT OF THIS MARKET. THEY SAID THAT STEELMET WILL LOBBY IN WASHINGTON AGAINST A PROPOSAL OF THE INSTITUTE OF US SCRAP DEALERS THAT ANY FUTURE RESTRICTIONS SHOULD BE BASED ON A THREE YEAR HISTORICAL RECORD.

5. IN REPLY TO A QUESTION AS TO WHETHER OR NOT THEY HAVE HAD PORT UNLOADING PROBLEMS IN CHINA, THE STEELMET OFFICIALS SAID THEY KNOW ABOUT THE RECENT PROBLEM OF COMMERCIAL METALS (STATE 190148). THE SAME THING HAPPENED TO THEM. IN BOTH CASES, THEY SAID, THE AMERICAN COMPANIES "MADE A BAD DEAL" WITH THE COST OF THEIR TIME CHARTERS CONSIDERABLY EXCEEDING THE DEMURRAGE PAYMENTS THEY WOULD RECEIVE FROM THE CHINESE IN THE EVENT OF DELAYS. THEY EMPHASIZED THAT THE CHINESE LIVED UP TO THEIR SIDE OF THE CONTRACT. " WE TOOK A BEATING BUT WONT'S MAKE THE SAME MISTAKE AGAIN," THE STEELMET OFFICIALS SAID. THEY ADDED THAT THE CHINESE HAVE NOW ASKED STEELMET FOR ADVICE ON HOW TO SPEED UP SCRAP UNLOADING.

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